The Federal Goods and Services Tax and the Yukon

July, 1990

PRINTED ON RECYCLED PAPER

Yukon
Economic Development:
Mines and Small Business

THE FEDERAL GOODS AND SERVICES TAX AND THE YUKON

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July, 1990

TABLE OF CONTENTS

Introduction 1

The FST and the GST 4

National Impacts of the GST 6

- The Federal Government's Analysis 7
- Independent Analyses of the GST 9
- The GST and Lower Income Earners 13
- Conclusions Concerning National Impacts of the GST .. 15

The GST and the Yukon 15

- The GST and Yukon Industry 15
  - Mining 16
  - Small Business 16
  - Manufacturing 17
  - Tourism 18
  - Housing 19
- The GST and Yukon Households 19
  - Increased Tax Burden 19
  - Inadequacy of Sales Tax Credits 22

Conclusions 23

References 24

Glossary 25

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THE FEDERAL GOODS AND SERVICES TAX AND THE YUKON

INTRODUCTION

The Yukon and other regions of Canada have witnessed a number of federal budgetary and taxation initiatives recently. Because of the special nature of northern economies, the impacts of these initiatives in the North are different from impacts in the more industrial areas of southern Canada. For example, the Free Trade agreement could limit the Yukon's efforts to diversify its economy because of provisions governing subsidies and regional development funding.[1] Regional development funding was also targeted for reductions in the federal government's April, 1989 budget, as were fiscal transfers to the territorial governments from the federal government. The 1990 federal budget contained further expenditure cuts, with those affecting Indian and Inuit Affairs programming of particular concern to northerners. One of the more significant of recent federal initiatives is the planned introduction of a federal goods and services tax.

Reform of the existing federal sales tax (FST), a tax applied to all manufactured goods at the factory gate, represents Phase II of the federal government's tax reform initiative. The federal Finance department described its plans to revamp the FST in its white paper on tax reform, released in mid 1987, in the following way:

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[1]For a more detailed discussion of the free trade issue see The Canada-U.S.A. Trade Agreement and the Yukon, Economic Development: Mines and Small Business, Government of Yukon, March 1, 1988.

> The government proposes to replace the existing federal sales tax with a broad-based multi-stage sales tax that extends to the retail level. This multi-stage tax would be a form of value-added tax. It would be levied on and collected from businesses, in stages, as goods move from primary producers and processors to wholesalers, retailers and finally to consumers.
>
> Under this sales tax system, businesses will charge tax on their sales and claim a credit for any tax paid on their purchases. In its simplest form, the tax is calculated by taking taxable sales made by a business during a given period, multiplying them by the tax rate, and then subtracting any tax paid on business purchases. In essence, this system is equivalent to applying the tax to the value-added by each business. (Dept. of Finance (1987), p. 59)

Subsequent to the White Paper of 1987, the Federal government clarified its proposal for reforming the FST in August 1989. At that time, a new goods and services tax, or GST was proposed to be applied to a broad tax base at a rate of 9%. Following examination of the GST by the House of Commons Standing Committee on Finance, which held public hearings on the issue, the tax rate was reduced to 7%. A number of consumer items will be exempt or free of tax and the refundable sales tax credit will be enlarged and made payable in advance to offset the additional burden of the GST on lower income families. While originally argued to be revenue neutral, the Federal government has since indicated a desire to use revenue collected under the GST to combat the budget deficit.

Highlights of the GST proposal are summarized below.

* Items to be free of tax through the whole production and distribution chain include basic groceries, prescription drugs and medical devices.

* A number of items will be tax exempt, which means no tax is collected on the final sale but tax is collected throughout the rest of the production and distribution chain. Tax exempt items include:

  health and dental care,
  educational services,
  day-care services,
  legal-aid services,
  residential rents,
  most financial services,
  municipal transit and passenger ferries,
  selected major agriculture and fishing inputs.

* There will be a small trader's threshold of $30,000 in annual sales. Businesses with sales less than the threshold will not be required to collect the tax on their sales but will also not be entitled to input tax credits. Therefore, these businesses will pay the GST on their purchased inputs.

* The new refundable goods and services tax credit will be increased from the present sales tax credits available under the FST. The adult credit will rise to $190 and the child credit will increase to $100, and both will be payable in advance on a quarterly basis. As well, single persons (including single parents) will be eligible to claim an additional credit of up to $100. The maximum income threshold at which credits begin to be reduced will be increased from $18,000 to $25,000.

* To further ensure that the overall impact of the GST will not be regressive, the existing high-income surtax will be increased from 3% to 5% and the minimum income threshold at which this tax becomes payable will be lowered to $62,000.

* Purchasers of newly constructed housing will receive a rebate on the GST collected of 2.5%. According to the federal government, the remaining 4.5% payable is about equal to what is being collected from an average house sale under the FST. For houses costing $350,000 to $450,000 the rebate is less, while purchasers of houses valued at more than $450,000 will receive no rebate.

* Subsequent to reduction of the GST rate to 7% from 9%, the federal government announced that the GST calculation technique would be simplified for small businesses. The Quick Method, as it is called, lets small businesses apply a predetermined factor to their sales revenue to determine GST payable. This approach means about 800,000 businesses will not have to use the lengthier standard calculation technique.

The GST takes effect January 1, 1991. Special rules will govern the transition period from the old system to the new system.

THE FST AND THE GST

Sales taxes are taxes on consumption as opposed to taxes on income such as the corporate or personal income tax. More often than not, the existing FST has amounted to a haphazard tax on business inputs, since it is not applied at the final demand level; that is, the FST is not collected at the point of sale to the ultimate consumer of a good. This made the FST a "hidden" or "buried" tax. In contrast, the GST will be paid at all stages of production and

distribution but refunded at each stage except the final point of sale. Nonetheless, the GST will remain hidden in most cases, even though it is applied at final purchase.

Although the current FST rate of 13.5% applies equally to most goods at the point of production -- certain building products are taxed at a lower rate -- the actual percentage of tax paid out of final selling prices has varied widely. These "effective" tax rates vary because the amount of cost added on to the factory gate price, after the FST is applied, depends on transportation and marketing costs. Average effective FST rates on a sample of consumer goods are presented below.

FST Share of the Retail Price of Selected Consumer Goods
(percent)

Commodity	Effective FST Rate
Household Furniture	6.70
Televisions, Radios, Stereos	8.35
Auto Parts	5.91
Recreation Vehicles	8.62
Canoes, Sailboats	10.35
Photographic Equipment	9.70
Sporting Equipment	7.55

Source: Melvin

The uneven tax rate resulting under the FST distorts purchasing patterns. The reason for this is that purchasers may choose to buy one item instead of another because of differences in price created by the FST. These artificial price differences do not

reflect an actual difference in production costs. The removal of this distortion is a significant benefit of the GST. Nonetheless, the GST still retains some exemptions, which dampens this benefit, even though there may be legitimate social reasons for the exemptions. On the other hand, it is also sometimes desirable that taxes create artificially high prices so as to discourage use of some commodities or to generate revenue to offset problems created by consumption of these commodities. Sales taxes on tobacco and alcohol are good examples of this situation.

It has also been argued that the existing FST distorts Canada's foreign trade. The FST discriminates in favor of imports because these goods can be taxed before certain markups for marketing and distribution are included. In contrast similar domestically produced goods often are taxed with these added costs included, reducing their competitiveness with imports. Many Canadian exports are directly taxed under the FST or indirectly taxed, because FST is collected on inputs purchased by exporters. This reduces the competitiveness of Canadian exports abroad and is a practice not found in a number of other countries. The GST would reverse these situations. Sales of imported goods will be taxed at the final purchaser level, creating an even playing field with domestic production. Exporters will not pay the GST (that is, they will be "zero-rated") and will qualify for input tax credits on their purchased inputs.

NATIONAL IMPACTS OF THE GST

In assessing the impacts of sales tax reform, it must be recognized that the benefits come about because of the removal of the distortions and inefficiencies created by the FST. The GST is much less distorting to production and consumption patterns because of its broader base and its uniform application at the final sale level.

The Federal Government's Analysis

The federal government's analysis of the GST suggests the tax will restructure economic activity in the following ways:

* With the sales tax now squarely aimed at consumption, there would be at least an initial reduction in consumer expenditures;

* Because capital inputs are no longer taxed, there should be an impetus to investment;

* Initially exports should increase and imports fall, bringing about an improvement in the merchandise trade balance;

* Wages would be expected to rise in response to the benefits from replacing the FST and the GST.[2]

The federal government estimates the long term gain from reform of the FST will be a 1.4% increase in economic output (excluding inflation). The production gains from switching to the GST will vary by industry. The table below indicates the federal government's estimates of production gains from imposition of the GST.

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[2]The University of Toronto has estimated wage gains of as much as 2% per year by the mid 1990's. Two reasons are cited for these increases. First, it has been argued that the current tax likely results in lower wages in addition to higher consumer prices; in other words, a portion of the tax is borne by wage earners through reduced wages, as well as a portion being passed forward to consumers through selling prices. Thus, removal of the current tax should result in an increase in wages. Secondly, as investment is stimulated by sales tax reform, and businesses take advantage of cheaper capital equipment, the productivity of Canadian workers will rise. This increase in productivity should also be reflected in higher wages.

Long Term Effects of Sales Tax Reform on Domestic Output
(percentage change)

Sector	Sectorial Output Gain
Primary	3.3
Manufacturing	1.4
Construction	1.6
Transportation and Utilities	3.1
Services	1.6
All Sectors	1.4

Source: Dept. of Finance

Because of the particular benefits of sales tax reform for capital investment, capital-intensive industries such as mining and utilities are estimated to benefit significantly. Industries taxed heavily under the FST, such as most manufacturing and communications, are also expected to show major gains.

The federal government has also estimated long term output gains by region. The gains are especially pronounced in the Prairie region, according to the federal government's analysis. These strong gains occur because of the region's reliance on capital-intensive, export-oriented industry. Reduced taxation of capital inputs and the tax-free status of exports provides the stimulus to these types of industries.

The estimates of regional output gains are reproduced below.

Long Term Effects of Sales Tax Reform by Region
(percentage change)

Region	Regional Output Gain
Atlantic Provinces	1.4
Quebec	1.0
Ontario	1.1
Prairies	2.5
British Columbia	1.3
All Provinces	1.4

Source: Dept. of Finance

Preliminary results for the two territories indicate that the output gain to the NWT would be above the national average while the Yukon's benefit would be somewhat less than the nation's. Unfortunately, poor data rendered the estimates for the North unreliable so that little can be said confidently about output gains.

Independent Analyses of the GST

One problem with the federal government's analysis is that it makes no reference to the timing of the gains, yet this is an important issue. Even if the gains cited by the federal analysis do materialize,[3] they will be preceded by a transition period, generally considered to run for at least several years. During this period, there will be a number of impacts on the economy as

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[3] A University of Toronto analysis of the long term gains to economic output from an 8% GST rate found these to be only .3%. This gain compares to the federal government's estimate of 1.4%.

the GST is introduced. The federal analysis recognizes these impacts but generally favorable assumptions about their severity are made.

At the original rate of 9%, independent analyses of the impacts of the GST on the economy differed markedly from the impact predicted by the Department of Finance. A comparison of the key impacts of the GST at 9% during the transition period is presented in the table below.

Short Term Effects of Sales Tax Reform, 9% GST (1991)
(percentage point change from no GST)

Indicator	Finance	Wood Gundy	Conference Board
Real Economic Growth	0.2	-0.6	-0.6
Inflation	2.3	3.0	2.7
Wages	0.2	1.1	n.a.
Interest Rates	0	0.2	0.02
Employment (jobs)	35,000	-75,000	n.a.

Source: Dept of Finance, Wood Gundy and Conference Board

Of particular concern was the impact of the GST on inflation. Wood Gundy estimated that the one-time effect on the price level if a 9% GST was introduced would be 3%, large enough to cause rising wage demands and a spiralling effect which would create further inflation. The Federal government argued that this effect would be minimal.

Another key difference between the government and independent analysts of the 9% GST concerned interest rates. Wood Gundy's

analysis, in particular, saw a major impact on interest rates as an effort would have to be made by the Bank of Canada to control the inflation problem. It was suggested by some that this increase would actually serve to raise the deficit by increasing debt servicing costs, the direct opposite impact desired by the government.

Since the GST rate was reduced, independent analyses have agreed more closely with the Department of Finance's results. A comparison of the key impacts of a 7% GST is presented below.

Short Term Effects of Sales Tax Reform, 7% GST (1991)
(percentage point change from no GST)

Indicator	Finance	Wood Gundy[4] (7.5% GST)	Conference Board
Real Economic Growth	0.2	0.3	0.0
Inflation	1.25	1.4	1.4
Wages	0.2	n.a.	n.a.
Interest Rates	0.0	0.0	0.01
Employment (jobs)	35,000	37,000	-29,000

Source: Dept. of Finance, Wood Gundy and Conference Board

The government now predicts the GST's one-time price impact to be 1.25%. The analysis by the Conference Board predicts that the inflation impact will actually be higher at 1.4%, but concurs with the government that this will not fuel an inflationary spiral.

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[4]Prior to reduction of the GST rate from 9% to 7%, Wood Gundy hypothetically analyzed the impact of a 7.5% GST.

The Board gives two main reasons for this conclusion. First, the price increase will not result in increasing profits as additional revenue will be remitted to the government. Therefore, increased wage settlements will not come easily in response to higher prices. Second, a slightly higher unemployment rate will create a labour market situation that will work to ease wage pressures.

Besides having impacts on economic growth, inflation, and other macro-economic variables, the GST will have industry-specific effects. A number of industry organizations have studied the GST's impact on their industries. Many of these organizations have voiced their concerns at hearings into the GST held by the House of Commons Standing Committee on Finance. Studies prepared by the housing industry and small business groups are just two examples of the industry level response to the GST.

The Canadian Home Builders Association, for example, has raised concerns about the impact of the GST on housing markets. They have argued that the GST will increase new housing prices by much more than the average of $480 as estimated by the federal government. The Association is also worried the increased building cost resulting from the GST will have to be absorbed by builders of rental housing in areas with rent controls.

The Canadian Federation of Independent Businesses (CFIB), representing the small business sector, has focused on the administrative burden imposed by the GST. Since the federal government and the provinces have yet to be successful in negotiating a single, jointly administered national sales tax, the end result is a two-tiered system. Small businesses will be especially burdened with the requirement to administer both the federal tax and existing provincial sales taxes. In a survey of 15,000 CFIB members, 96.8% responded against the GST option compared to an integrated national sales tax or minor modifications to the existing FST.

In terms of regional impacts of the GST, there appears to be agreement that regions outside central Canada would benefit significantly. James Melvin of the University of Western Ontario had the following to say about overall gains from sales tax reform.

> ... a switch from an FST to a BTT (business transfer tax -- another term for the GST) would be expected to generate substantial real income gains for the economy. Furthermore, these gains will be at least as substantial for the small regions as for the larger regions where manufacturing is concentrated. (Melvin, p. 32)

The GST and Lower Income Earners

A sales tax is generally regarded as being a regressive tax, meaning it places a disproportionate burden on low income earners. This occurs because lower income people spend a much higher share of their income on consumption (little is saved or invested), and much more of these expenditures will now be taxed. The federal government will offset this regressiveness (by more than 100% in very low income cases) with a substantially enriched sales tax credit that will be payable in advance and with an increase in the high income surtax. Because the sales tax credit is a fixed amount per person, and not a percentage of GST paid, it disproportionately benefits lower income people. Moreover, it is generally recognized that lower income families spend a greater share of their income on food. With prices of basic groceries not only free of tax, but expected to fall about one percent because of cheaper production costs, lower income people will again benefit. The increase in the high income surtax will ensure that wealthy persons, who spend a relatively smaller proportion of their income on consumption compared to persons in lower income

brackets, will not escape paying their fair share under the new tax regime.

There is another offsetting effect to the regressiveness of the GST. Lower income people receive a much greater share of their income in the form of transfer payments such as social assistance. Many of these transfer payments are fully or partially indexed to the consumer price index. This means that increases in the price level associated with imposition of the GST will, in part, be offset by increases in transfer payments. The federal government has sought to ensure that the provincial and territorial governments do not attempt to reduce social assistance payments by including the enriched federal sales tax credit as income for the purposes of calculating social assistance benefits.

Independent studies corroborate the federal government's assessment that low income earners would benefit significantly under the GST, at least in southern Canada. However, a Coopers Lybrand analysis of GST impacts on income support programs made the following cautionary statements.

> Tax credits are becoming an increasingly significant part of the low income family's revenues. Their increased value may cause many jurisdictions to rethink the relationship between the tax and transfer system. A major difference between these systems is the timing of benefit delivery. Even with the move to a quarterly payment, the frequency of these benefits does not match that of social allowance benefits. Social allowance and other low income recipients may have difficulty incorporating these benefits into their monthly spending patterns. (DePape, p.3)

Conclusions Concerning National Impacts of the GST

Replacement of the FST with the GST could be expected to have beneficial national impacts in the longer term because of improvements in economic efficiency, although their magnitude is uncertain. Some concerns have been raised about the shorter term effects of the GST on economic growth, inflation and the federal deficit. Some researchers argued that these transitional period impacts would outweigh the longer term benefits of sales tax reform. However, the reduction of the GST rate to 7% has largely silenced this criticism.

Lower income families will see their added tax burden under the GST offset by improved sales tax credits, no taxation of basic groceries and indexing of social assistance. However, the increasing integration of social transfers with the tax system may create some problems.

THE GST AND THE YUKON

As a small, remote economy, largely dependent on resource activities, the Yukon can expect impacts from sales tax reform to differ somewhat from impacts in southern, industrial regions. For example, reform may alter trade patterns differently in regions importing manufactured goods, such as the Yukon, than in regions exporting these goods. In addition to differing impacts on the business sector, northern households will also be uniquely affected by the GST.

The GST and Yukon Industry

The most important effects of the GST on Yukon businesses are discussed below.

Mining

The federal government estimates the mining industry will see significant benefits from the GST. These benefits will arise as purchased inputs become cheaper with the removal of the discriminatory FST. According to the Center for Resource Studies at Queen's University, mining firms selling into large world markets should enjoy improved profits under the GST. Mining firms large enough to affect world prices will have the choice of increasing their profits or cutting prices to enhance their competitiveness. Since most of the Yukon's mining production has traditionally been exported, Yukon mining firms will have tax free status and receive full input tax credits.

At least one concern arises with regard to Yukon mining and the GST. This concern involves the exploration industry, since it is unknown how this aspect of mining will be affected by the GST. Improved industry profits could spur exploration, but if exploration costs are not exempted from the tax then these costs will rise.

Small Business

The broadening of the sales tax base to services and to <u>all</u> levels of trade, extends the administrative burden of collecting the tax to many more businesses. Since the administrative burden of businesses is much the same regardless of the value of sales, small businesses suffer more from the added work than larger ones. With the recognized importance of small business in the Yukon, this added burden may be more pronounced in the territory.

Nationally, small businesses are worried about complying with a two-tiered sales tax system; but in the Yukon, which has no retail sales tax of its own, this will not be a concern. Instead, the absence of a Yukon sales tax and the relatively small number of

manufacturing firms creates a different problem for Yukon small businesses. Because of of the situation described above, few small northern firms are familiar with either the existing FST on manufactured goods or with provincial-type sales taxes. Thus, the introduction of the GST will create especially severe hardship as the small business sector in the North adjusts to the new regime.

Many Yukon individuals work in very small businesses in the renewable resource and service industries (for example: trapping, guiding, and agriculture) or in part-time businesses. Since businesses with revenues of less than $30,000 will not be required to collect tax on their sales, the GST's administrative burden will be avoided. However, tax will be paid on inputs and will not be refundable, causing costs to rise. For those activities with relatively low material input costs, such as trapping and guiding, the added expense will not be substantial.

For trapping, there is the possibility of some added benefits because much of Canada's fur garment production is exported. With the tax free status of these sales under the GST, profitability should rise; however, it is difficult to predict whether this situation will lead to higher prices received by trappers or remain as higher profits for the garment industry.

Manufacturing

Manufacturing in the Yukon and elsewhere stands to benefit from replacement of the discriminatory FST with a more broadly-based tax. Since services and non-manufactured goods will now be taxed, their prices should rise relative to the prices of manufactured goods, which are already taxed under the FST. This means that demand should increase for manufactured goods, possibly providing some benefit for the Yukon's fledging manufacturing industry. More importantly, since exports will not be taxed under the GST proposal, Yukon manufacturing firms exporting outside of Canada

should benefit. In addition, taxing of transportation will increase the cost of importing and could stimulate import substitution.

Tourism

Sales of goods and services to foreign tourists will be taxable under the GST but the tax will be rebated on items taken out of the country and on accommodation expenses. Tourists will be required to apply for a refund once they return home, although the federal government is considering making rebates payable at border crossings. The effect of tourist rebates is uncertain since many will not be aware of the refund or will not bother to apply. A key item for which the tax will not be rebated is gasoline. On the other hand, one of the major expenses of travellers to the Yukon is food, and purchases of basic groceries will be tax free.

There is reason to believe the GST may make the Yukon a less desirable destination for foreign tourists. U.S. tourists travelling to Alaska make up the largest group of visitors to the Yukon. If it is perceived costs have gone up relative to Alaska then there will be less incentive to linger in the Yukon. This is already a problem for the Yukon's tourism industry. Wilderness adventure and fly-in fishing operators will be hurt by the GST because of the high proportion of their prices represented by transportation, for which no rebate will be received. Thus, wilderness adventure and fly-in fishing prices will become more expensive relative to tourism activities where transportation is less important. This same effect could dampen enthusiasm generally for travel to out-of-the-way places like the Yukon.

Canadian tourists will have to pay the 7% tax when travelling within Canada, receiving no rebates whatsoever. Travel in Canada will be less appealing relative to foreign destinations. As a result, there will likely be fewer Canadians visiting the Yukon than would otherwise be the case.

Housing

New housing will be taxed at a rate of 4.5%, once the partial GST rebate offered to new house buyers is considered. It is difficult to assess the impact of the GST on Yukon housing. Transportation of building products to the territory will now be taxed, whereas it was not under the FST. The higher labour and management costs of building construction in the North should also result in more GST being collected than in regions with lower living costs. However, in comparison to urban markets elsewhere, land costs are generally lower in the Yukon. Thus, application of the GST to the land portion of housing costs will result in less tax being collected than from the taxing of land in other urban areas. In balance, it is probable that the price of a house in the Yukon will rise by a greater amount than the price of an equivalent house in an average southern Canadian location, once the GST is implemented.

The GST and Yukon Households

The GST will have significant effects on all Canadian households. In the North, the impact of the GST is likely to differ from other regions because of unique lifestyles. This section looks at the GST tax burden that will be borne by Yukon households and the adequacy of offsetting sales tax credits for lower income families.

Increased Tax Burden

There is reason to believe that the GST will have a proportionately greater impact on family expenditures in the North than in other regions of Canada. Yukon residents do not pay much more sales tax on individual purchases than southern residents under the FST, even though Northerners live in remote locations. Since most manufactured goods are made and taxed in southern Canada,

the tax on these goods is roughly the same whether a good is shipped five kilometers or to Old Crow. Some additional tax is paid indirectly because the transportation industry requires fuel and equipment to move goods to the North and these commodities are taxed at present. But these amounts are small.[5]

On the other hand, consumer prices are much higher in the Yukon than elsewhere. The GST applied at the retail level will therefore collect much more from an average family in the North than in the South, even though both families may have about the same standard of living. A simplified example of this situation for a representative purchase is presented below and serves to illustrate this point.

Take a consumer item which is manufactured in southern Ontario and is assumed to sell in southern Canada for $40. If we further assume that the item costs an additional $10 to ship North and sells for $50 in the Yukon, then the tax payments under the current federal sales tax (FST), assuming estimated effective rates, are about $2.92 and $3.09, respectively.[6] If we deduct these tax payments from the selling prices and apply a GST of 7%, then tax payments become $2.60 and $3.28, respectively.[7] Thus,

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[5]Melvin has calculated that the effective FST on transportation services is about 1.7%.

[6]Some of the additional cost of retail sales in the North is attributed to higher markups, although the exact amount is unknown. Regardless, assuming the entire amount is transportation cost has virtually no impact on the analysis. Effective FST rates are from Melvin.

[7]Some critics of the GST have argued that prices of manufactured goods may not fall after the FST is removed; instead, manufacturers may just increase their profits. Under this scenario the price difference between North and South increases by a comparatively larger $.70.

while an average resident of southern Canada would actually pay about $.32 less for the item under the GST, a Yukon resident would pay about $.19 more -- the price gap here would increase by $.51 or 5%.

Selling Prices for an Item Sold in Southern Canada and the Yukon under the FST and GST

	South	Yukon
Current selling price under FST	$40.00	$50.00
Effective FST @ 7.3%	2.92	2.92
Effective FST on transport @ 1.7%	-	.17
Total FST collected	2.92	3.09
Selling price less FST component	$37.08	$46.91
GST collected @ 7%	2.60	3.28
Selling Price under GST	$39.68	$50.19

Source: Dept. of Economic Development

The amount of GST paid by northerners for typical purchases will be higher than that paid by less remote residents; thus, there is a shifting of the sales tax burden onto families living in high cost areas. Based on Statistics Canada data showing family spending patterns, it is estimated the average Whitehorse family will pay nearly $400 more GST per year than the average Canadian family. For air transportation alone, the added GST paid by a Whitehorse family is estimated at more than $30 per year. Similarly, the extra GST paid for home heating fuels and electricity will be over $30 annually as well.

For Yukon residents outside of Whitehorse, living costs are even higher. The table below shows that the cost of living in some communities approaches 60% greater than in Whitehorse.

Cost of Living in Yukon Communities Compared to Whitehorse
(annual average, 1989)

Community	Cost of Living Index
Whitehorse	100.0
Carcross	114.4
Carmacks	115.9
Dawson City	112.9
Faro	109.4
Haines Junction	105.5
Mayo	114.1
Old Crow	158.5
Ross River	115.4
Watson Lake	109.3

Source: Bureau of Statistics

With living costs higher, families in Yukon communities can be expected to pay even more GST than Whitehorse families.

Inadequacy of Sales Tax Credits

Lower income families in the Yukon will pay more GST than similarly disadvantaged families in southern Canada because of higher living costs. Yet the federal sales tax credits are fixed amounts for all claimants across the country. It is therefore more likely that a lower income family in the Yukon will not be fully compensated for the added living cost imposed by the GST.

As a related point, generally higher incomes in the North (but not necessarily greater purchasing power) mean fewer people qualify for the sales tax credit. In 1987, for example, only 20% of all Yukon income tax filers claimed this credit, while nationally the figure was 26%. Again, the federal sales tax credit is less effective for offsetting the impact of the GST on lower income people in the North.

CONCLUSION

While the Federal government has made an effort to improve the existing federal sales tax system, the proposed goods and services tax has a number of problems. Many critics have suggested joint Federal-provincial administration would significantly increase the acceptability of a GST. For Northerners there are additional concerns, many of which derive from the higher cost of living in the Yukon and other northern regions. If a GST is inevitable, then special treatment for northern regions would help offset the particular disadvantages faced by northern residents. The Yukon government, in its presentation to the House of Commons Standing Committee on Finance, suggested a number of measures to reduce the unfair treatment of the North under the GST. These measures, however, have not been adopted by the federal government.

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GLOSSARY

sales tax - a tax applied at the time goods and services are sold.

revenue neutral - a change to the tax system which results in neither more nor less revenue than would have otherwise been raised.

business input - the factors - land, labour, capital, know-how - used in the production process to obtain output.

hidden or buried - a tax which is not identified in final sales prices or on purchase invoices, and which therefore remains unknown.

regressive tax - a tax which takes a larger percentage of the total income of a low income person than of a higher income person.

tax base - the full range of purchases, income or wealth on which a tax is applied.

tax burden - the total amount of tax paid by an individual, group or business.

effective tax rate - the actual amount of the price of a good or service or of an individual's income which is paid out as tax.

sales tax credit - a refund of the sales tax paid by an individual or by businesses.